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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 7, Issue 6

April 10, 2012

Canada

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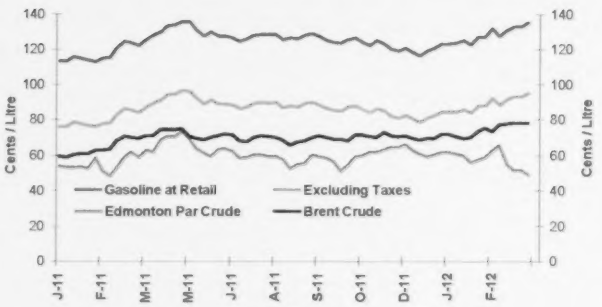
National Overview

Canadian Retail Gasoline Prices Increased 2 Cents per Litre from Last Week

Canadian retail pump prices increased by 2 cents per litre, to an 11-month high of $1.35 per litre for the week ending April 3, 2012. Average Canadian pump prices rose mainly due to higher wholesale gasoline prices.

Diesel fuel prices remained unchanged at $1.30 per litre compared to the previous week. This is an increase of 3 cents per litre from the same period last year. Furnace oil prices declined by less than 1 cent per litre to $1.21 per litre from the previous week.

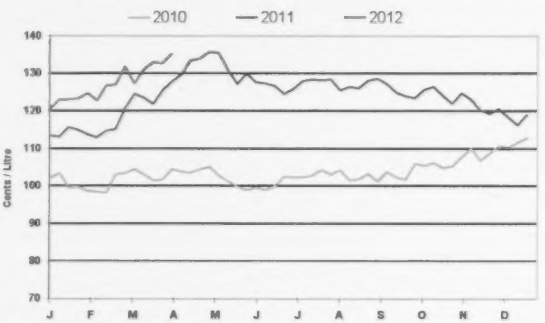
Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)



Recent Developments

- **Increased Crude Oil Pipeline Capacity Needed**: According to a Purvin & Gertz, Inc. report, based on the available pipeline capacity and crude production forecasts, the need for additional pipeline capacity is re-emerging. More pipeline capacity will be needed by 2014 to 2016, depending on future crude production. Even if Keystone XL comes into operation, additional pipeline capacity would be needed for Canadian crude exports by 2017 to 2018. According to the Canadian Association of Petroleum Producers (CAPP) crude oil production from Canada will increase from 2.8 million barrels per day to 4.7 million barrels per day by 2025, requiring adding pipeline capacity to facilitate exports. (Source: Purvin & Gertz, Inc., CAPP)
- **Increased Oil and Gas Investment**: ExxonMobil Corp. will invest at least US$185 billion over the next five years to develop new supplies of energy to meet expected demand growth. Even with significant efficiency gains, ExxonMobil expects global energy demand to increase by 30% by 2040, versus 2010 levels. Demand for electricity will make natural gas the fastest growing major source, and oil and natural gas are expected to meet 60% of energy needs over the next three decades, the company said. To help meet that demand, ExxonMobil is anticipating an investment profile of around $37 billion per year through the year 2016. (Source: Global Refining & Fuels Report, March 20, 2012)

Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-04-03	Previous Week	Last Year
Gasoline	135.1	2.4	+7.4
Diesel	130.0	0.0	+2.5
Furnace Oil	121.4	-0.2	+1.5

Source: NRCan

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Retail Gasoline Overview

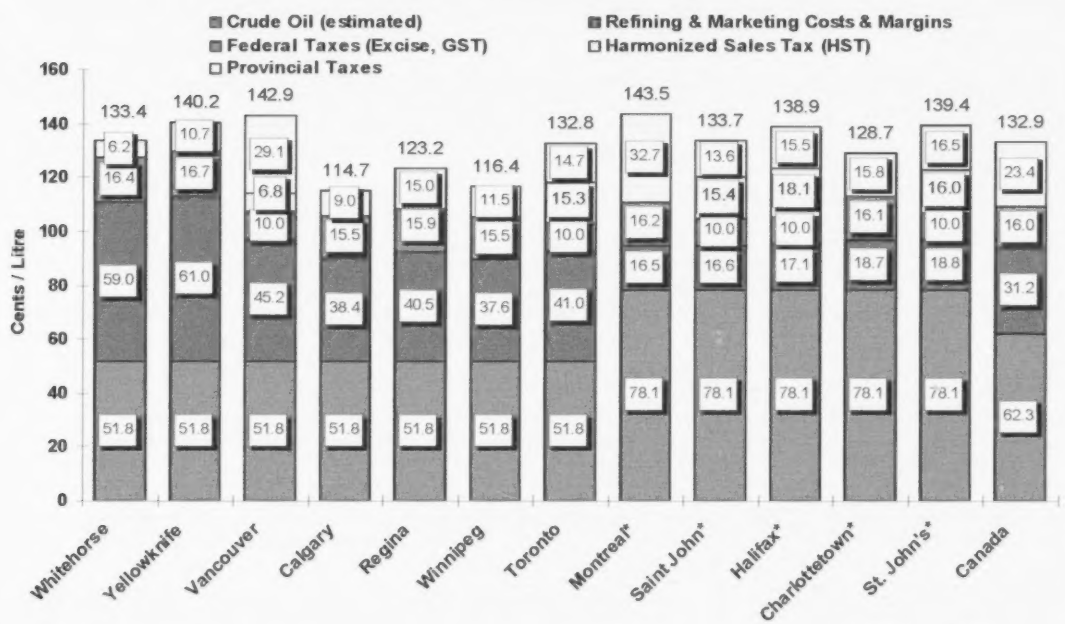
The average Canadian pump price in selected cities for the **four-week average** ending April 3, 2012, was $1.33 per litre—an increase of 2 cents per litre from the last report on March 25, 2012. This represents an 8 cents per litre increase from the same period in 2011.

The **four-week average** crude oil price component of gasoline registered at 62 cents per litre, down by 4 cents per litre from two weeks ago. The crude oil price component of gasoline is 3 cents per litre lower than at the same time last year.

Retail gasoline prices in most Western centres (Winnipeg to Vancouver), which ranged from $1.15 to $1.43 per litre, increased on average by 1 cent per litre when compared to the previous report. Prices in Eastern centres (Toronto to St. John's) rose on average by 2 cents per litre and ranged from $1.29 to $1.44 per litre.

Overall, the refining and marketing costs and margins component increased by nearly 6 cents per litre to 31 cents per litre compared to two weeks ago, and is 10 cents per litre higher than at the same time last year. The calculated refining and marketing costs and margins component of gasoline prices is particularly high in Western Canada.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 13 to April 3, 2012)



Source: NRCan

** Regulated Markets*

Inflation Up 2.6% in February 2012

Statistics Canada's Consumer Price Index (CPI) report released March 23, 2012, indicates that energy and food costs led the increase and consumer prices rose 2.6% in the 12 months to February after increasing 2.5% in January. The cost of energy advanced 7.2% in the 12 months to February, led by increases in prices for gasoline (+8.9%) and electricity (+8.7%). The February increase in energy followed a 6.5% gain in January.

The CPI, excluding food and energy, increased 1.7% in the 12 months to February, as passenger vehicle insurance premiums and homeowners' replacement costs rose. This followed a 1.6% gain in January. On a year-over-year basis, prices rose in seven of the eight major components in February with transportation and food posting the largest increases. The cost of transportation increased 4.2% in the 12 months to February, after rising 3.7% in January. In addition to gasoline, passenger vehicle insurance premiums, prices for the purchase of passenger vehicles and air transportation costs went up.

Source: Statistics Canada, The Daily, http://www.statcan.ca/daily-quotidien/120323/dq120323a-eng.htm

Wholesale Gasoline Prices

Wholesale gasoline prices, when compared to the previous week, increased in all centres for the **week ending March 29, 2012**.

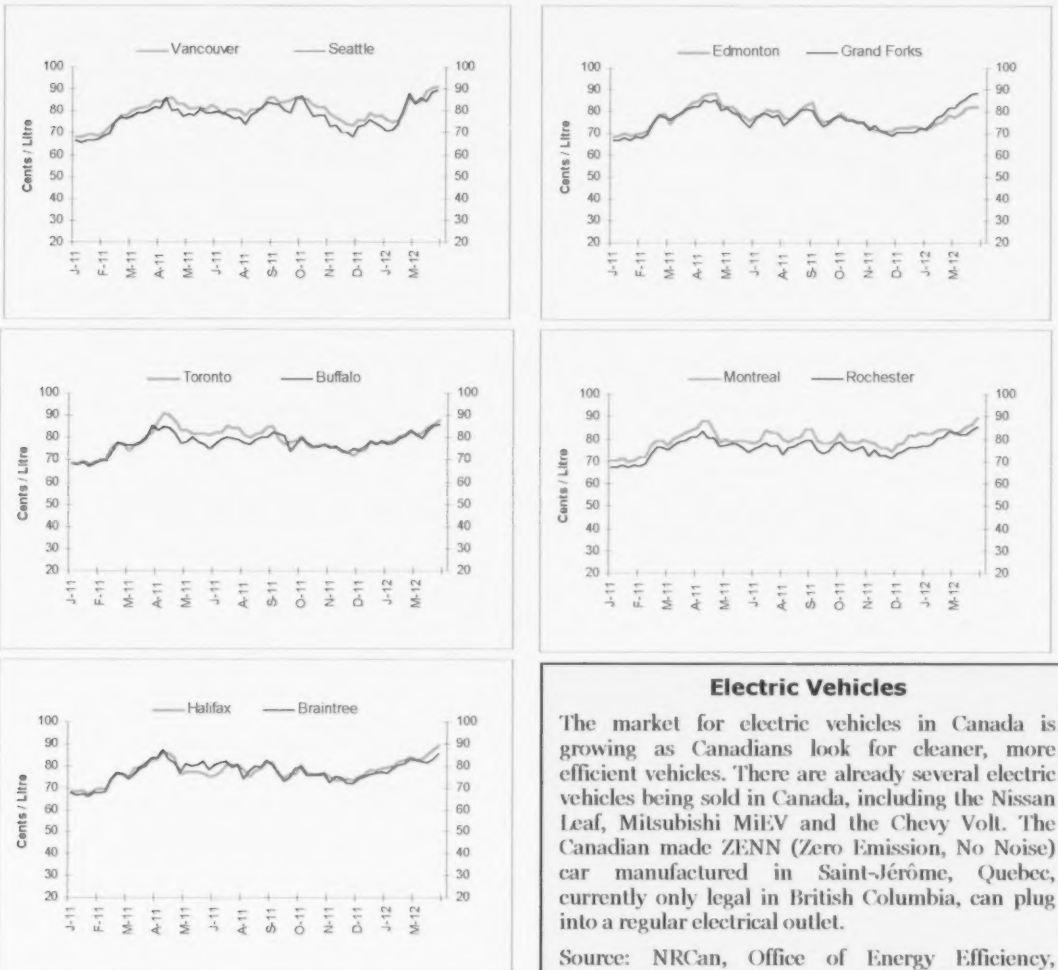
Wholesale gasoline prices in the Eastern markets of both Canada and the United States increased by less than 1 to 3 cents per litre, compared to the previous week, and ended the period in the 85 to 90 cent-per-litre range.

In the Western centres, price increases ranged from less than 1 and 1 cent per litre, and ended in the 82 to 91 cent-per-litre range.

In the last four weeks, wholesale prices in most Canadian and American selected centres have increased by 2 to 7 cents per litre.

Overall, wholesale gasoline prices in most markets are 3 to 11 cents per litre above last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending March 29, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Electric Vehicles

The market for electric vehicles in Canada is growing as Canadians look for cleaner, more efficient vehicles. There are already several electric vehicles being sold in Canada, including the Nissan Leaf, Mitsubishi MiEV and the Chevy Volt. The Canadian made ZENN (Zero Emission, No Noise) car manufactured in Saint-Jérôme, Quebec, currently only legal in British Columbia, can plug into a regular electrical outlet.

Source: NRCan, Office of Energy Efficiency, http://oee.nrcan.gc.ca/transportation/alternative-fuels/fuel-facts/electric/6680 and CBC.

Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

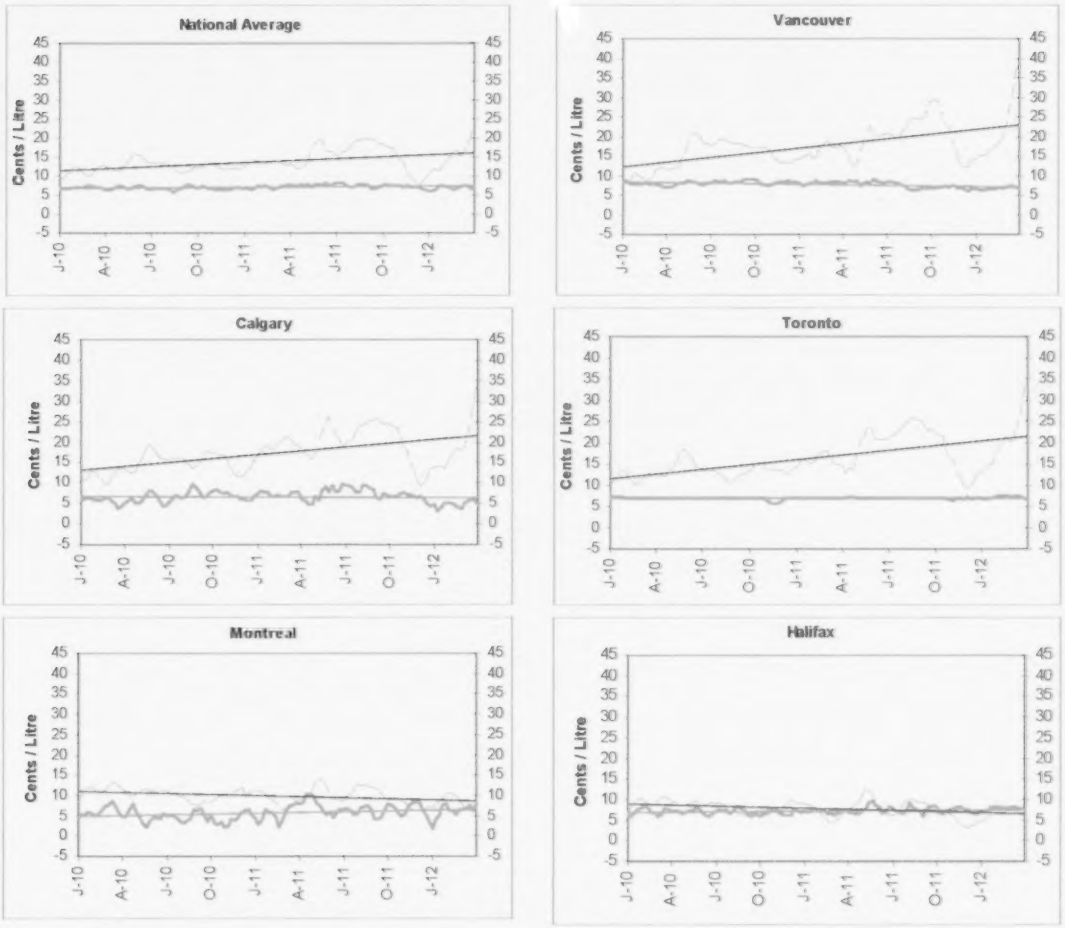
Refining margins have shown upward movement since the beginning of the year. Reductions in refining margins are indicative of adequate supply, while larger margins are a sign of a tightening in supplies.

It is not unusual for this time of the year to observe an increase in refining margins as refiners convert their operations away from distillate production toward more gasoline production to build inventories in anticipation of high summer gasoline demand. This conversion process involves temporary reductions in refinery output, which puts upward pressure on prices.

However, if the early spring is colder than expected, heating oil requirements will remain strong and refiners still need to meet the demand for distillates. These conditions can often limit the available supply of products, push prices up and increase the refining margins.

Another factor likely to firm up the refining margins is the need for refiners to do maintenance on equipment at this time of the year, which often requires the short term shut-down of specific units. These planned or unplanned shut-downs can also impact the refinery on a wider scale and for longer periods of time.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending April 3, 2012
------- Refining Margin —— Marketing Margin



Source: NRCan

Crude Oil Overview

Moderate Fluctuations in World Crude Oil Prices, Falling Prices for Canadian Crude

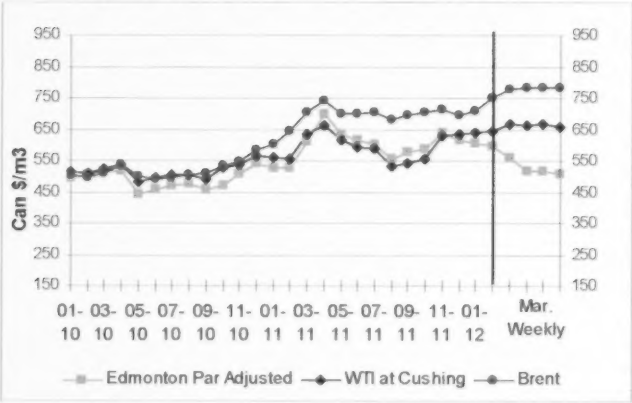
For the week ending March 30, 2012, crude oil prices averaged between $507 and $783/m³ ($US81 to $US125 per barrel). Edmonton Par and WTI saw a decrease of $9 and $7/m³ ($US1 per barrel) while Brent increased moderately by $3/m³ (less than $US1 per barrel) week over week. Compared to the same period in 2011, Edmonton Par prices have decreased by $117/m³ ($US21 per barrel) while the other benchmarks are slightly higher.

According to the U.S. Energy Information Administration Petroleum Supply Monthly report, total oil demand fell almost 4.5% in January from a year earlier, declining by 853,000 barrels per day to 18 million barrels per day.

Despite a modest recovery in the U.S. economy, higher gasoline prices have cut demand in the United States to the lowest level for the month of January since 2001.

Slowing economic activity is usually coupled with a decrease in energy use. As the U.S. is a major consumer of crude oil, a decrease in the country's consumption could lead to a surplus of crude oil on the international market leading to decreased prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-03-30		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	507.17	80.92	-8.53	-1.51	-117.37	-21.27
WTI	658.80	105.11	-6.79	-1.28	+13.85	-0.43
Brent	783.13	124.95	+2.55	+0.17	+72.69	+8.69

Source: NRCan

U.S. Gasoline Prices Rise Due to Increased Crude Oil Costs

According to the Energy Information Administration (EIA) the national average price of regular grade gasoline averaged $3.58 per gallon (95 cents per litre) for the month of February 2012, representing a 37-cent per gallon (11.5%) increase compared to February 2011. Further, gasoline prices vary significantly by region, with average prices on the West Coast almost $1 per gallon more expensive than those in the Rocky Mountains. The seasonally-high retail prices are mostly a result of global crude oil prices, which have also been at record levels for this time of year.

In general, the level of gasoline prices is mostly a function of crude oil prices. Because crude oil is the main driver of gasoline prices, weak U.S. gasoline demand has not translated into lower costs at the pump. Crude oil prices are up in 2012. The price of Brent crude oil averaged $119.33 per barrel in February, the highest of any February on record. This average price was an increase of $15.61 per barrel compared to a year earlier, which (when translated into gallons) was also 37 cents per gallon, the same as the increase in retail gasoline prices. There is significant regional variation in gasoline prices. During 2012, retail gasoline prices in the Rocky Mountain region have been well below the national average due to lower crude oil input cost for refiners in that region.

Source: EIA, http://www.eia.gov/todayinenergy/detail.cfm?id=5550#